

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Helen Newberry Joy Hospital	County Luce
Fiscal Year End 12/31/2005	Opinion Date 3/31/2006	Date Audit Report Submitted to State 6/27/2006	

We affirm that:

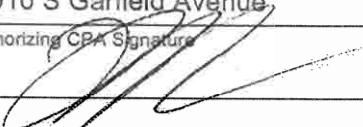
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☐ ☒ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Plante & Moran, PLLC		Telephone Number 231-947-7800	
Street Address 1010 S Garfield Avenue		City Traverse City	State MI
Zip 49686			
Authorizing CPA Signature 	Printed Name Michael A Baker	License Number 1101017229	

# **Helen Newberry Joy Hospital**

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**Financial Report  
with Additional Information  
December 31, 2005**

# Helen Newberry Joy Hospital

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## Independent Auditor's Report

To the Board of Trustees  
Helen Newberry Joy Hospital

We have audited the accompanying balance sheet of Helen Newberry Joy Hospital (a component unit of Luce County) as of December 31, 2005 and 2004 and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Helen Newberry Joy Hospital at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

*Plante & Moran, PLLC*

March 31, 2006



A worldwide association of independent accounting firms

# Helen Newberry Joy Hospital

## Balance Sheet

	December 31, 2005	December 31, 2004
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 2)	\$ 975,704	\$ 1,361,586
Short-term investments (Note 2)	732,133	731,036
Accounts receivable (Note 3)	2,422,962	1,614,621
Cost report settlements (Note 4)	1,423,671	1,338,153
Prepaid expenses and other	343,683	115,298
Inventory	434,186	499,966
Total current assets	6,332,339	5,660,660
<b>Assets Limited as to Use</b> (Note 2)	1,207,762	1,464,481
<b>Property and Equipment</b> (Note 5)	10,214,871	10,576,575
<b>Other Assets</b>	133,174	141,497
Total assets	<u>\$ 17,888,146</u>	<u>\$ 17,843,213</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt (Note 6)	\$ 536,786	\$ 376,970
Accounts payable	592,287	297,308
Accrued liabilities and other	1,131,618	1,047,060
Total current liabilities	2,260,691	1,721,338
<b>Long-term Debt</b> (Note 6)	5,684,666	6,196,464
Total liabilities	7,945,357	7,917,802
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	3,993,419	4,003,141
Donor restricted for specific operating activities	106,613	106,613
Unrestricted	5,842,757	5,815,657
Total net assets	9,942,789	9,925,411
Total liabilities and net assets	<u>\$ 17,888,146</u>	<u>\$ 17,843,213</u>

# Helen Newberry Joy Hospital

## Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended	
	December 31, 2005	December 31, 2004
<b>Operating Revenues</b>		
Net patient service revenue	\$ 21,822,045	\$ 20,248,698
Other	728,589	569,763
Total operating revenues	22,550,634	20,818,461
<b>Operating Expenses</b>		
Salaries and wages	9,945,456	9,382,762
Employee benefits and payroll taxes	3,966,726	3,536,154
Supplies	1,566,444	1,468,689
Drugs	1,122,827	843,024
Professional services and consultant fees	68,239	119,249
Purchased services	2,411,487	2,401,278
Insurance	355,063	298,185
Utilities	391,461	383,372
Depreciation	1,343,077	1,367,068
Other	1,118,184	774,248
Total operating expenses	22,288,964	20,574,029
<b>Operating Income</b>	261,670	244,432
<b>Other Income (Expense)</b>		
Interest income	85,403	46,590
Interest expense	(329,695)	(276,660)
Total other expense	(244,292)	(230,070)
<b>Excess of Revenue Over Expenses</b>	17,378	14,362
<b>Capital Grants and Contributions</b>	-	307,363
<b>Increase in Net Assets</b>	17,378	321,725
<b>Net Assets - Beginning of year</b>	9,925,411	9,603,686
<b>Net Assets - End of year</b>	<u>\$ 9,942,789</u>	<u>\$ 9,925,411</u>

# Helen Newberry Joy Hospital

## Statement of Cash Flows

	Year Ended	
	December 31, 2005	December 31, 2004
<b>Cash Flows from Operating Activities</b>		
Cash received from patients and third-party payors	\$ 20,928,186	\$ 19,774,160
Cash payments to employees and suppliers	(20,720,632)	(18,984,475)
Other operating receipts	728,589	569,763
Net cash provided by operating activities	936,143	1,359,448
<b>Cash Flows from Investing Activities</b>		
Proceeds from the sale of investments	1,214,093	367,049
Purchase of investments	(873,068)	(1,279,512)
Interest received	85,403	46,590
Net cash provided by (used in) investing activities	426,428	(865,873)
<b>Cash Flows from Capital and Related Financing Activities</b>		
Principal proceeds on long-term debt	-	1,000,000
Principal payments on long-term debt	(351,982)	(431,877)
Interest paid on long-term debt	(329,695)	(276,660)
Purchase of property and equipment	(981,373)	(879,675)
Net cash used in capital and related financing activities	(1,663,050)	(588,212)
<b>Net Decrease in Cash and Cash Equivalents</b>	(300,479)	(94,637)
<b>Cash and Cash Equivalents - Beginning of year</b>	1,630,055	1,724,692
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 1,329,576</b>	<b>\$ 1,630,055</b>
<b>Composition of Cash and Cash Equivalents</b>		
Cash and cash equivalents	\$ 975,704	\$ 1,361,586
Short-term investments	24,469	52,309
Assets limited as to use	329,403	216,160
Total	<b>\$ 1,329,576</b>	<b>\$ 1,630,055</b>

# Helen Newberry Joy Hospital

## Statement of Cash Flows (Continued)

	Year Ended	
	December 31, 2005	December 31, 2004
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
Operating income	\$ 261,670	\$ 244,432
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	1,351,400	1,375,391
Provision for bad debts	413,661	414,133
Change in assets and liabilities:		
Patient accounts receivable	(1,369,933)	(1,243,013)
Cost report settlement receivables	62,413	354,342
Inventories	65,780	(17,876)
Other current assets	(228,385)	152,335
Accounts payable	294,979	(36,361)
Accrued liabilities	84,558	116,065
Net cash provided by operating activities	<u>\$ 936,143</u>	<u>\$ 1,359,448</u>

During the year ended December 31, 2004, a noncash transaction in the amount of \$307,363 was recorded as a capital contribution and capital asset acquisition of a building.



# Helen Newberry Joy Hospital

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## Notes to Financial Statements December 31, 2005 and 2004

### Note 1 - Nature of Business and Significant Accounting Policies

**Reporting Entity** - Helen Newberry Joy Hospital (the "Hospital") is located in Newberry, Michigan and provides inpatient, outpatient, and long-term care services primarily to the citizens of Luce County, Michigan. The Hospital is a governmental corporation established in accordance with Public Act 230 (County Health Facilities Corporation Act) of the State of Michigan Statutes of 1987 and is a component unit of Luce County. The Hospital's financial statements are prepared on the full accrual basis of accounting.

**Basis of Presentation** - The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Hospital follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provide a comprehensive look at the Hospital's financial activities.

**Enterprise Fund Accounting** - The Hospital uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund Accounting*, as amended, the Hospital has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB).

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents** - Cash and cash equivalents include cash and investments in highly liquid investments purchased with an original maturity of three months or less.

**Inventories** - Inventories, which consist of medical and office supplies and pharmaceutical products, are stated at cost, determined on a first-in, first-out basis or market.

**Property and Equipment** - Property and equipment amounts are recorded at cost. Donated property and equipment are recorded at the estimated fair market value at the time of donation. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

# Helen Newberry Joy Hospital

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## Notes to Financial Statements December 31, 2005 and 2004

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

**Assets Limited as to Use** - Assets limited as to use include assets designated by the board of trustees for future capital acquisitions, funded sick pay, and unexpended proceeds from borrowings.

**Compensated Absences** - Vacation and sick pay are charged to operations when earned. Unused and earned benefits are recorded as a current liability in the financial statements.

**Retirement Plans** - All Hospital employees hired after June 2001, as well as employees who elected to change, are covered under a defined contribution plan. Substantially all other Hospital employees maintain coverage under the Michigan Municipal Retirement System noncontributory defined benefit plan. The Hospital's policy is to fund the defined benefit pension plan at actuarially determined amounts.

**Professional and Other Liability Insurance** - The Hospital accrues an estimate of the ultimate expense, including litigation and settlement expense, net of applicable reinsurance coverage, for incidents of potential improper professional service and other liability claims occurring during the year as well as for those claims that have not been reported at year end.

**Classification of Net Assets** - Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

**Net Patient Service Revenue** - The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined (see Note 4).

# Helen Newberry Joy Hospital

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## Notes to Financial Statements December 31, 2005 and 2004

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance of such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

**Charity Care** - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care amounts to less than 1 percent of patients served.

**Tax Status** - The Hospital and its subsidiaries are nonprofit, tax-exempt organizations, and accordingly, no tax provision is reflected in the accompanying financial statements.

**Reclassifications** - Certain prior year amounts have been reclassified to conform with the current year presentation.

### **Note 2 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Hospital has designated 10 banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Hospital's deposits and investment policies are in accordance with statutory authority.

# Helen Newberry Joy Hospital

## Notes to Financial Statements December 31, 2005 and 2004

### Note 2 - Deposits and Investments (Continued)

The Hospital's cash and investments are subject to credit risk, which is examined in more detail below:

#### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital does not have a specific deposit policy for custodial credit risk. At December 31, 2005, the Hospital had approximately \$1,265,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Hospital believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Hospital evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 3 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below.

	2005	2004
Patient accounts receivable	\$ 4,984,310	\$ 4,017,988
Less:		
Allowance for uncollectible accounts	740,000	620,000
Allowance for contractual adjustments	1,999,032	1,910,943
Net patient accounts receivable	2,245,278	1,487,045
Other	177,684	127,576
Total accounts receivable	\$ 2,422,962	\$ 1,614,621

The Hospital grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors was as follows:

	2005 (%)	2004 (%)
Medicare	26	28
Blue Cross/Blue Shield of Michigan	15	12
Medicaid	25	26
Commercial insurance and HMOs	14	13
Self-pay	20	21
Total	100	100

### Note 4 - Cost Report Settlements

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors is as follows:

- **Medicare** - The Hospital is designated as a critical access hospital under Medicare regulations. As such, the Hospital will receive reasonable, cost-based reimbursement for both inpatient and outpatient services provided to Medicare beneficiaries.
- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid patients are paid on a cost-reimbursement method. Outpatient and physician services are reimbursed on an established fee-for-service methodology. Long-term care services are reimbursed at established per diem rates plus cost for ancillary services.
- **Blue Cross/Blue Shield of Michigan** - Services rendered to Blue Cross subscribers are reimbursed at controlled charges.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

# Helen Newberry Joy Hospital

## Notes to Financial Statements December 31, 2005

### Note 5 - Property and Equipment

Cost of property and equipment and related depreciable lives for December 31, 2005 are summarized below:

	2004	Additions	Transfers	Retirements	2005	Depreciable Life - Years
Land and land improvements	\$ 467,736	\$ -	\$ -	\$ -	\$ 467,736	
Building	11,112,650	25,836	31,499	-	11,169,985	10-40
Equipment	8,438,173	218,097	915,313	-	9,571,583	5-20
Construction in progress	209,372	737,440	(946,812)	-	-	
Total	20,227,931	981,373	-	-	21,209,304	
Less accumulated depreciation:						
Land and land improvements	52,135	10,722	-	-	62,857	
Building	3,600,411	552,079	-	-	4,152,490	
Equipment	5,998,810	780,276	-	-	6,779,086	
Total	9,651,356	1,343,077	-	-	10,994,433	
Net carrying amount	\$ 10,576,575	\$ (361,704)	\$ -	\$ -	\$ 10,214,871	

# Helen Newberry Joy Hospital

## Notes to Financial Statements December 31, 2005

### Note 5 - Property and Equipment (Continued)

Cost of property and equipment and related depreciable lives for December 31, 2004 are summarized below:

	2003	Additions	Transfers	Retirements	2004	Depreciable Life - Years
Land and land improvements	\$ 453,101	\$ -	\$ 14,635	\$ -	\$ 467,736	
Building	10,674,650	438,000	-	-	11,112,650	10-40
Equipment	7,911,817	411,967	114,389	-	8,438,173	5-20
Construction in progress	1,325	337,071	(129,024)	-	209,372	
Total	19,040,893	1,187,038	-	-	20,227,931	
Less accumulated depreciation:						
Land and land improvements	42,389	9,746	-	-	52,135	
Building	3,061,767	538,644	-	-	3,600,411	
Equipment	5,180,132	818,678	-	-	5,998,810	
Total	8,284,288	1,367,068	-	-	9,651,356	
Net carrying amount	\$ 10,756,605	\$ (180,030)	\$ -	\$ -	\$ 10,576,575	

# Helen Newberry Joy Hospital

## Notes to Financial Statements December 31, 2005 and 2004

### Note 6 - Long-term Debt

Long-term liability activity for the year ended December 31, 2005 was as follows:

	2004	Current Year Additions	Current Year Reductions	2005	Amounts Due Within One Year
Series 2001A	\$5,289,201	\$ -	\$ (187,149)	\$5,102,052	\$ 209,547
Series 2001B	254,034	-	(92,021)	162,013	103,305
Equipment note	1,000,000	-	(42,613)	957,387	223,934
Other	30,199	-	(30,199)	-	-
Total long-term debt	<u>\$6,573,434</u>	<u>\$ -</u>	<u>\$ (351,982)</u>	<u>\$6,221,452</u>	<u>\$ 536,786</u>

Long-term liability activity for the year ended December 31, 2004 was as follows:

	2003	Current Year Additions	Current Year Reductions	2004	Amounts Due Within One Year
Series 2001A	\$5,466,393	\$ -	\$ (177,192)	\$5,289,201	\$ 200,196
Series 2001B	346,054	-	(92,020)	254,034	99,509
Equipment note	-	1,000,000	-	1,000,000	47,066
Other	192,864	-	(162,665)	30,199	30,199
Total long-term debt	<u>\$6,005,311</u>	<u>\$1,000,000</u>	<u>\$ (431,877)</u>	<u>\$6,573,434</u>	<u>\$ 376,970</u>

The bonds payable are summarized as follows:

- Revenue bonds payable to a financial institution, Healthcare Facilities Series 2001A Bond Agreement, with monthly payments ranging from \$16,000 to \$39,400 plus interest, with a portion fixed at a rate of 5.61 percent and a portion variable that was 5.44 percent at December 31, 2005. These bonds are collateralized by substantially all assets of the Hospital.
- Revenue bond payable to a financial institution, Healthcare Facilities Series 2001B Bond Agreement, with monthly payments ranging from \$8,800 to \$9,500 plus interest at a variable rate, which was 5.44 percent at December 31, 2005. These bonds are collateralized by substantially all assets of the Hospital.
- Note payable to a financial institution, related to acquisition of equipment, with monthly payments ranging from \$12,600 to \$22,700, plus interest at 4.2 percent.



# Helen Newberry Joy Hospital

## Notes to Financial Statements December 31, 2005 and 2004

### Note 6 - Long-term Debt (Continued)

The note payable is collateralized by substantially all assets of the Hospital.

The following is a schedule by years of bond principal and interest as of December 31, 2005:

<u>Years Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 536,786	\$ 271,893
2007	525,513	248,359
2008	487,814	226,767
2009	468,253	204,872
2010	251,742	189,176
2011-2015	1,448,903	755,689
2016-2020	1,828,280	376,311
2021-2024	674,161	24,036
Total payments	<u>\$ 6,221,452</u>	<u>\$ 2,297,103</u>

### Note 7 - Retirement Benefits

**Plan Description** - The Hospital sponsors both a defined benefit plan and a defined contribution plan. The Hospital participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers qualifying full-time employees of the Hospital who did not migrate to the defined contribution plan. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MMERS at 447 North Canal Road, Lansing, Michigan 48917.

**Funding Policy** - Benefit provisions of the MMERS, and employer and employee obligations to contribute, are outlined in Act No. 47 of the Public Acts of 1984, as amended. Pension expense consists of normal costs of the plan and amortization of prior service cost over a 40-year period, net of amortization of investment gains over a 10-year period.

**Annual Pension Cost** - The Hospital's contributions to the plan amounted to \$331,457 and \$306,036 in 2005 and 2004, respectively. The actuarially determined contribution requirements have been met based on actuarial valuations performed at December 31, 2003.

# Helen Newberry Joy Hospital

## Notes to Financial Statements December 31, 2005 and 2004

### Note 7 - Retirement Benefits (Continued)

Three-year trend information is presented below to show the progress of the Hospital's status regarding certain key indicators:

	Year Ended December 31		
	2004	2003	2002
Annual Pension Cost (APC)	\$ 331,457	\$ 219,199	\$ 140,353
Percentage of APC contributed	100 %	100 %	100 %
Actuarial value of assets	\$ 9,669,849	\$ 9,161,523	\$ 8,706,864
Actuarial accrued liability (entry age)	\$11,483,243	\$11,230,615	\$10,363,835
Unfunded Actuarial Accrued Liability (UAAL)	\$ 1,813,394	\$ 2,069,092	\$ 1,656,971
Funded ratio	84 %	82 %	84 %
Covered payroll	\$ 2,984,024	\$ 3,031,204	\$ 2,957,088
UAAL as a percentage of covered payroll	61 %	68 %	56 %

The Hospital sponsors a defined contribution plan covering all employees hired after June 1, 2001, and all other employees who elected to change from the defined benefit plan. Participating employees in this plan may contribute 2 percent of their gross earnings and the Hospital contributes 7 percent of gross earnings for participants. The Hospital's contribution totaled \$439,822 and \$411,122 for the years ended December 31, 2005 and 2004, respectively.

### Note 8 - Risk Management

The Hospital is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Hospital has purchased commercial insurance for the above claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance in any of the past three fiscal years.

The Hospital is insured against potential professional liability claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. The Hospital bears the risk of the ultimate costs of any individual claim exceeding the policy limits for claims asserted in the policy year.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during the claims-made term, but reported subsequently, will be uninsured.

## **Additional Information**

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To the Board of Trustees  
Helen Newberry Joy Hospital

We have audited the basic financial statements of Helen Newberry Joy Hospital as of December 31, 2005 and 2004. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of operating revenue and operating expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Plante & Moran, PLLC*

March 31, 2006

# Helen Newberry Joy Hospital

## Schedule of Operating Revenue

	Year Ended December 31			
	2005			2004
	Inpatient	Outpatient	Total	Total
<b>Routine Care Revenue</b>				
Adults and pediatrics	\$ 574,276	\$ -	\$ 574,276	\$ 653,074
Other LTC	3,256,469	-	3,256,469	2,937,792
Total routine care revenue	3,830,745	-	3,830,745	3,590,866
<b>Ancillary Revenue</b>				
Anesthesiology	56,577	533,013	589,590	562,344
Cardiac rehabilitation	-	27,093	27,093	23,447
Diabetic education	-	42,302	42,302	40,015
Emergency room	249,687	1,735,980	1,985,667	1,860,886
Laboratory	653,579	4,189,145	4,842,724	4,463,862
Medical supplies	750,904	1,149,263	1,900,167	1,823,122
Observation	129,145	317,265	446,410	382,526
Occupational therapy	25,812	189,907	215,719	195,667
Operating room	160,517	1,686,406	1,846,923	1,499,235
Pharmacy	1,585,039	2,229,215	3,814,254	3,015,077
Physical therapy	49,200	605,643	654,843	700,190
Physician office	149,058	2,335,508	2,484,566	2,403,346
Radiology	356,752	3,210,174	3,566,926	3,051,378
Ultrasound	33,614	725,701	759,315	780,072
Nuclear medicine	22,014	611,644	633,658	675,617
Respiratory therapy	744,880	529,790	1,274,670	1,151,671
Other professional services	-	1,363	1,363	553
Total ancillary revenue	4,966,778	20,119,412	25,086,190	22,629,008
Gross patient service revenue	<u>\$ 8,797,523</u>	<u>\$20,119,412</u>	28,916,935	26,219,874
<b>Deductions from Revenue</b>				
Provision for contractual adjustments under Medicare, Medicaid, and Blue Cross			(5,775,034)	(4,677,492)
Provision for bad debts			(413,661)	(414,133)
Charity care			(315,111)	(231,386)
Other revenue deductions			(591,084)	(648,165)
Total deductions from revenue			<u>(7,094,890)</u>	<u>(5,971,176)</u>
Net patient service revenue			21,822,045	20,248,698
<b>Other Operating Revenue</b>				
Cafeteria revenue			67,518	51,461
Rent income			38,100	37,400
Grants			143,505	112,957
Contributions			165,183	-
Other revenue			314,283	367,945
Total other operating revenue			<u>728,589</u>	<u>569,763</u>
Total operating revenue			<u>\$22,550,634</u>	<u>\$20,818,461</u>

# Helen Newberry Joy Hospital

## Schedule of Operating Expenses

	Year Ended December 31			
	2005		2004	
	Salaries and Wages	Other Expenses	Total	Total
<b>Nursing Services</b>				
Adults and pediatrics	\$ 1,158,076	\$ 575,885	\$ 1,733,961	\$ 1,722,206
Other long-term care	1,338,970	718,146	2,057,116	1,859,137
Total nursing services	2,497,046	1,294,031	3,791,077	3,581,343
<b>Other Professional Services</b>				
Anesthesiology	160,066	97,806	257,872	242,305
Cardiac rehabilitation	24,704	11,203	35,907	44,093
Central service and supply	-	14,270	14,270	4,461
Diabetic education	52,787	29,925	82,712	80,124
EKG	-	1,131	1,131	1,816
Emergency room	378,782	1,037,538	1,416,320	1,303,554
Laboratory	546,418	805,734	1,352,152	1,320,000
Medical records	283,600	166,104	449,704	415,294
Medical supplies	-	29,384	29,384	34,807
Nursing administration	275,641	142,471	418,112	397,862
Occupational therapy	-	-	-	74,877
Oncology	-	119,792	119,792	-
Operating room	258,370	751,505	1,009,875	823,542
Pharmacy	264,645	710,141	974,786	742,266
Physical therapy	197,455	205,902	403,357	363,078
Physician office	1,884,352	1,184,176	3,068,528	2,992,323
Radiology	398,906	562,206	961,112	1,043,424
Radiology - Ultrasound	128,074	112,070	240,144	206,315
Radiology - Nuclear medicine	29,171	148,192	177,363	104,060
Respiratory therapy	231,289	246,982	478,271	355,373
Social service	64,832	28,378	93,210	84,369
Other health care services	27,106	14,007	41,113	34,634
Total other professional services	5,206,198	6,418,917	11,625,115	10,668,577
<b>General Services</b>				
Operation of plant	195,565	535,400	730,965	685,256
Laundry	88,711	58,359	147,070	128,456
Housekeeping	288,341	197,669	486,010	454,740
Dietary	323,882	350,655	674,537	628,478
Total general services	896,499	1,142,083	2,038,582	1,896,930
<b>Administrative</b>				
Administrative	1,345,713	1,790,337	3,136,050	2,761,926
Other general administrative	-	355,063	355,063	298,185
Total administrative	1,345,713	2,145,400	3,491,113	3,060,111
<b>Depreciation and Amortization</b>	-	1,343,077	1,343,077	1,367,068
<b>Total Operating Expenses</b>	<b>\$ 9,945,456</b>	<b>\$12,343,508</b>	<b>\$22,288,964</b>	<b>\$20,574,029</b>

March 31, 2006

To the Board of Trustees  
Helen Newberry Joy Hospital

Dear Board Members:

In planning and performing our audit of the financial statements of Helen Newberry Joy Hospital for the year ended December 31, 2005, we considered the Hospital's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a certain matter involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. This report also contains our observations, comments, and other items we feel warrant your consideration. All items are presented for your consideration on attachments as outlined below.

### **Reportable Conditions**

#### **Posting Variances**

At December 31, 2005, the Hospital had a significant number of unreconciled transactions that related mainly to balance sheet activity related to third-party clearing accounts. It appeared that the majority of this variance was due to error in the transaction codes related to clearing of patient accounts paid by third-party payors. Subsequent to year end, management was able to reconcile the majority of this variance and a correcting entry was posted.

Posting discrepancies often happen during a system conversion. We understand that the transaction codes that generated these variances have been corrected.

We recommend this account be reviewed on a monthly basis and new variances be reviewed and corrected on a timely basis.

#### **Legal Investments under Public Act 20 of 1943**

During our testing of investments, we noted the Corporation is invested in certain investments which may not be allowable under Public Act 20 of 1943. We would strongly encourage the Corporation to review all current investments to determine if they comply with Public Act 20 of 1943.

### **Other Items**

#### **Physician Receivable**

Medicare regulations related to transactions between hospitals and nonemployed physicians are complex and limit certain types of transactions with physicians, including noninterest-bearing loans that could be viewed as an inducement for the physician to refer services to the Hospital. The penalties for violation of these regulations can have significant financial impact on both the Hospital and the physician.

We recommend the Hospital review current transactions with physicians and document that services are being provided at fair market value and collection policies are reasonable.

### **OIG Work Plan**

The 2006 work plan issued by the Office of the Inspector General (OIG) identifies projects that have evolved in response to new issues and the shifting priorities of Congress. OIG spends significant resources in the investigation of fraud and misconduct committed against the Medicare and Medicaid programs.

Highlights from the OIG's 2006 work plan include, but are not limited to:

**Critical Access Hospitals** - OIG will review hospital cost reports to examine the administrative and other costs incurred by critical access hospitals for inpatient and outpatient services for time periods both prior and subsequent to their conversion to critical access hospital status.

**Rebates Paid to Hospitals** - OIG will determine whether hospitals are properly identifying purchase credits as a separate line item in their Medicare cost reports. This will be done through visiting several large vendors and determining the amount of rebates paid to hospitals in a given year, and then examining a sample of cost reports to determine if the rebates were properly credited.

**Unbundling of Hospital Outpatient Services** - OIG will determine the extent to which hospitals and other providers are submitting claims for services that should be bundled into outpatient services.

**"Inpatient Only" Services Performed in an Outpatient Setting** - OIG will determine if Medicare payments are appropriately denied for "inpatient only" and related services performed in an outpatient setting and assess the extent to which Medicare beneficiaries are held liable for denied inpatient claims for those services. They will also assess whether CMS computer edits required to implement the outpatient prospective payment system were implemented.

**Physicians - Billing Service Companies** - OIG will review the relationship between billing companies and physicians and other Medicare providers to determine the impact of these arrangements on physicians' billings.

**Physicians - Payments to Providers for Initial Preventative Physical Examination** - Section 611 of the Medicare Modernization Act (MMA) provides for coverage of an initial preventative physical examination (IPPE) which includes an EKG, measurements of height, weight, blood pressure, review of medical and social history, assessment of depression, and evaluation of functioning ability for new Medicare beneficiaries effective January 1, 2005. OIG will be evaluating the billing practices to ensure physicians are not claiming higher payment for



services they performed in the past with existing patients but new Medicare beneficiaries.

This report is intended solely for the information and use of the board of trustees, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to be of service to the Hospital. The cooperation extended to us by your staff throughout the audit was greatly appreciated. Should you wish to discuss any of the items included in this report, we would be happy to do so.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in dark ink, appearing to be 'M. Baker', followed by a vertical line.

Michael A. Baker, CPA  
Partner